



INDIAN SCHOOL AL WADI AL KABIR

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| Class: XI | Department: Commerce |
| Worksheet No: 7 | Topic: SOURCES OF BUSINESS FINANCE |

- Internal sources of capital are those that are
 - generated through outsiders such as suppliers
 - generated through loans from commercial banks
 - generated through issue of shares
 - generated within the businessAnswer: d
- ADRs are issued in
 - Canada
 - China
 - India
 - USAAnswer: d
- Money obtained by issue of shares is known as _____
 - Debts
 - Share Capital
 - Loans
 - Reserve FundsAnswer: b
- _____ was the first company in India to issue convertible zero interest debentures in January 1990
 - Mahindra and Mahindra
 - Adani Enterprise
 - Tata Motors
 - Reliance LimitedAns: a
- Which of the following is a commercial bank?
 - All of these
 - Canara bank
 - Punjab National Bank
 - State Bank of IndiaAns: a

6. The ordinary shares of a company are delivered to the depository bank, which in turn issues the depository receipts, known as _____
- (a) Commercial banks
 - (b) ADR
 - (c) None of these
 - (d) GDR
- Ans: d
7. Unit Trust of India was established by _____
- (a) ICICI
 - (b) State Bank Group
 - (c) Indian Government
 - (d) HDFC Bank
- Ans: c
8. Debentures represent
- (a) Fixed capital of the company
 - (b) Permanent capital of the company
 - (c) Fluctuating capital of the company
 - (d) Loan capital of the company
- Ans: d
9. Funds required for purchasing current assets is an example of
- (a) Fixed capital requirement
 - (b) Ploughing back of profits
 - (c) Working capital requirement
 - (d) Lease financing
- Ans: c
10. Funds raised through loans or borrowings are _____
- (a) Borrowed funds
 - (b) Owners Equity
 - (c) None of these
 - (d) Share Capital
- Ans: a
11. Dividend is paid only on _____
- (a) Loans
 - (b) Debentures
 - (c) Bonds
 - (d) Shares
- Ans: d
12. Investors who want steady income may not prefer _____
- (a) None of these
 - (b) Debentures
 - (c) Equity Shares
 - (d) Bonds
- Ans: c

13. Mention any one source of owner's fund.

Ans: Equity Shares

14. Mention any one type of Financial Institutions.

Ans: Industrial Finance Corporation of India.

15. GDRs can be converted into shares _____

- (a) At any time
- (b) After 5 years
- (c) After 10 years
- (d) After one year

Ans: a

16. Define ploughing back of profits.

Answer: In a company, a part of the net incomes retained for future use is known as retained earnings. It is used as a source of internal financing, self-financing, or ploughing back of profits

17. Risk capital is defined as which type of capital?

Answer: Risk capital is defined as equity share capital.

18. State the return given to debenture holders for using their funds.

Answer: Fixed rate of interest is given to debenture holders for using their funds.

19. Give one feature of retained earnings that the other source of finance does not have.

Answer: Retained earnings save a portion of the net incomes for future use is retained earnings. The retained earnings have the ability to self-finance and it doesn't involve any explicit cost.

20. Mention one similar function of Public deposits and ADR.

Answer: In both public deposits and ADR, the depositors don't have a voting right.

21. In the business sector which organization provides both medium- and long-term loans and has been set up by both the state and central government.

Answer: The organization which provides both medium and long term loans and has been set up by both the state and central government is the Financial Institution (development bank).

22. Mention two rights of preference shareholder.

Answer: The two rights of preference shareholder are:

- Getting a fixed rate of dividend from the net profit of an organization, before declaring any dividends for equity shareholder.
- At the time of liquidation, receiving funds after the organization creditors claim has been resolved.

23. 'They are also termed as Residual owners'. Who are they? Discuss any three demerits of the source of finance raised from them.

Answer: Equity shareholders. The three limitations of equity share capital are:

- Investors who expect a constant income may not favour equity share as it has a fluctuating return.
- The cost of equity share is more than the cost of raising funds through many other sources.
- Equity share diminishes the voting power and earnings of the present equity shareholder.

24. 'It is the credit extended by one trader to another for the purchase of goods and services. It facilitates the purchase of supplies without immediate payment. It is granted to those customers who have reasonable amount of financial standing and goodwill'. Identify it. Discuss the merits of the identified source of business finance.

Ans: Trade Credit

MERITS:

- (i) Trade credit is a convenient and continuous source of funds;
- (ii) Trade credit may be readily available in case the credit worthiness of the customers is known to the seller;
- (iii) Trade credit helps to promote the sales of an organisation;
- (iv) If an organisation wants to increase its inventory level in order to meet expected rise in the sales volume in the near future, it may use trade credit to, finance the same;
- (v) It does not create any charge on the assets of the firm while providing funds.

25. Identify the source of finance which grants loan for a longer duration with easy repayment facility. Discuss the merits of the identified source of finance.

Ans: Financial Institutions.

MERITS:

- Financial institutions provide long term finance, which are not provided by commercial banks;

- Besides providing funds, many of these institutions provide financial, managerial and technical advice and consultancy to business firms;
- Obtaining loan from financial institutions increases the goodwill of the borrowing company in the capital market.
- As repayment of loan can be made in easy instalments, it does not prove to be much of a burden on the business;
- The funds are made available even during periods of depression, when other sources of finance are not available.

26. Differentiate between Equity Shares and Preference Shares

Difference between Equity Shares and Preference Shares

| | Base | Equity Shares | Preference Shares |
|-----------|----------------|--------------------------------------|-------------------------------|
| 1. | Dividend | After preference shares | Priority over equity share |
| 2. | Voting Right | Dividend is paid full voting rights. | No voting right. |
| 3. | Risk | Risk bearing securities | Less risk |
| 4. | Rate of Return | Fluctuates with profit | Fixed Rate of Dividend |
| 5. | Control | Control on the management. | No control on the management. |

27. Differentiate between Shares and Debentures

Difference between Shares and Debentures

| | Base | Shares | Debentures |
|----|--------------|-------------------------------|---|
| 1. | Nature | Shares are the capital | Debentures are a loan |
| 2. | Return | Dividend | Interest |
| 3. | Voting Right | Full voting right | No voting right |
| 4. | Holder | Owner is called shareholder. | Creditor |
| 5. | Types | There are two types of shares | More than two types |
| 6. | Security | Not secured by any charge | Secured and generally carry a charge on the assets of the company |

28. Differentiate between ADR and GDR

| Basis | ADR | GDR |
|--------------|--|-------------------------------------|
| Listing | Listed only in American Stock Exchange | Can be listed anywhere in the world |
| Liquidity | More Liquid | Less Liquid |
| Shareholders | Only American Citizens | Citizens from all over the world |